










*Local Exchange Competitors have
evolved from small, niche players
to sophisticated, full-service
Telecommunications Companies*

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LEGEND

	Central Office in Top 100
	Collocated Central Office
	Teleport
	MFS
	Cablevision
	Other ALT/CAP Networks
	Locate
	Central Office
	Interexchange Carrier POP

THE STATE OF COMPETITION

Currently, competitors are targeting the business market in urban areas with high concentrations of traffic and revenue. The rates NYNEX charges its business customers include a significant contribution that supports Universal Service.

Mr. William C. Ferguson, Chairman of NYNEX, has stated...

"We used to own the marketplace; the customer had no place to go but us. Competition has changed all that forever, yet we continue to be regulated as if all of our subsidies will remain forever."

In the current competitive environment, NYNEX must be provided the ability to shift these subsidies out of their access rates.

NYNEX

The evolution of competition has been very rapid in areas with high concentrations of traffic and revenue, such as the large cities in the service area of NYNEX.

Map 1 shows the geographic areas served by each of NYNEX's approximately 1,200 central offices.

Shaded are 100 of NYNEX's top revenue producing central offices, less than 10% of the total offices. These offices produce over 53% of NYNEX's interstate access revenue, and over 50% of the interstate switched access minutes of use.

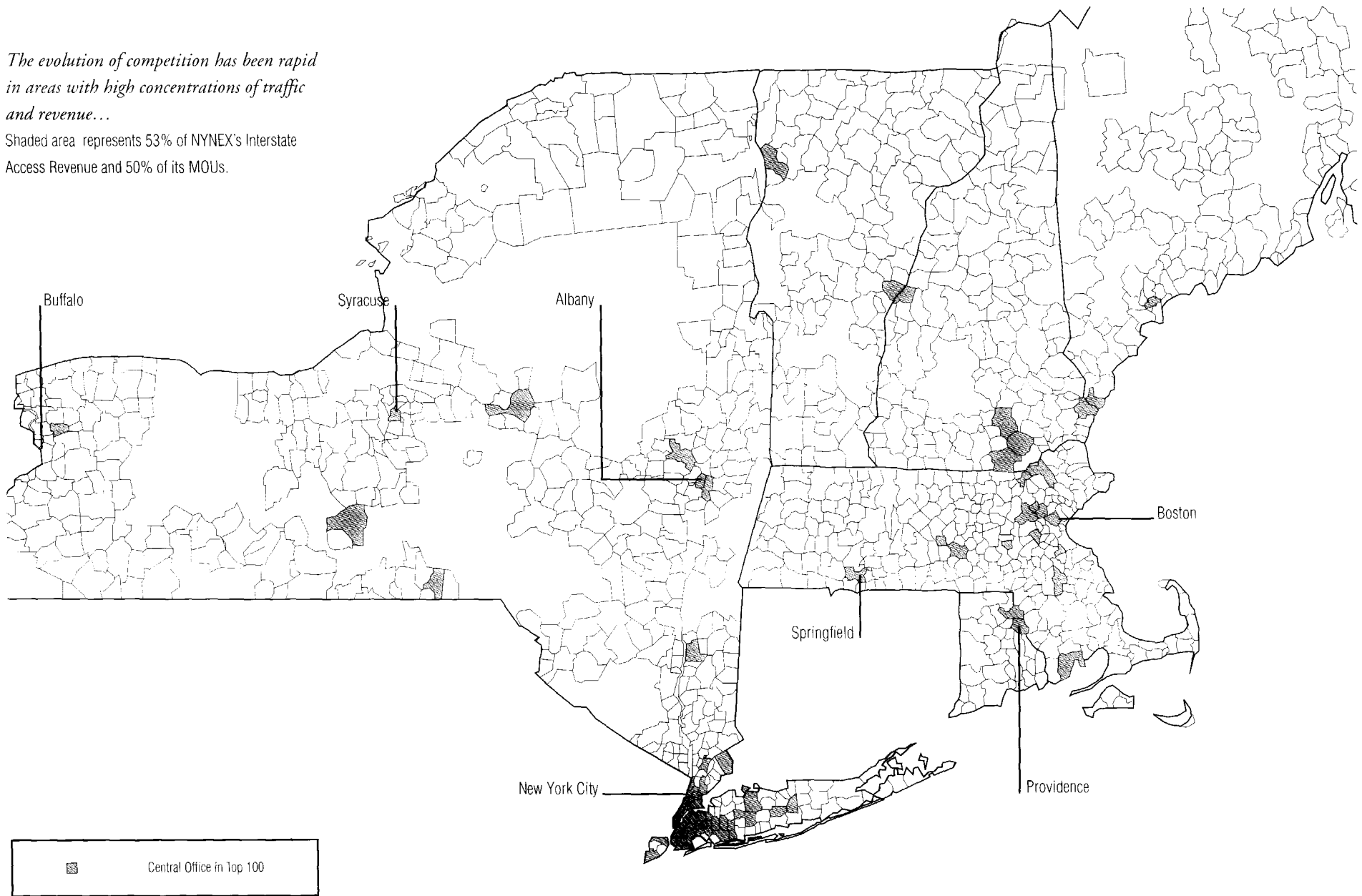
NYNEX has received 54 requests for collocation in its central offices. To date, 38 collocation cages have been established in 27 central offices. These 27 offices generate almost 25% of NYNEX's interstate access revenue. Seven more central offices will soon have collocation.

There is an extremely high concentration of revenue and traffic in less than 10% of NYNEX's central offices.

MAP I

The evolution of competition has been rapid in areas with high concentrations of traffic and revenue...

Shaded area represents 53% of NYNEX's Interstate Access Revenue and 50% of its MOUs.



LATA 132, which includes New York City, is the focus of intense competition.

How much business is generated in LATA 132? Why is it the target of such intense, focused competition that is unlike any other market in the country?

LATA 132 is comprised of approximately 170 central offices. Within this area are 59 of the top 100 central offices depicted on the previous map. LATA 132 generates about 50% of NYNEX's interstate switched access minutes of use and 80% of NYNEX's New York area interstate switched access minutes of use.

In New York City:

- Over **59 million calls** are made every day.
- **One trillion dollars** in financial transactions go over NYNEX's lines every day.
- Over 13,200 corporate headquarters are located in Manhattan alone.

The New York Public Service Commission (PSC), the state regulatory agency that is the strongest proponent of local competition in the nation, has removed virtually all roadblocks to the competitive provisioning of intrastate telecommunications services. The PSC requires NYNEX to provide: interconnection for local services; access to unbundled links and ports for business and residence ser-

vices, and NXX codes in a non-discriminatory manner to Teleport Communications Group (TCG), Metropolitan Fiber Systems (MFS) and other certified carriers, including many Interexchange Carriers (IXCs), that have been issued Certificates of Public Convenience and Necessity to operate as local exchange carriers in New York.

Expanded interconnection, or collocation first offered in New York in May of 1991 at the state level and later extended to interstate services in 1993, significantly enhanced the competitive position of the Competitive Access Providers (CAPs). Expanded interconnection provides the CAPs with the right to interconnect their networks with NYNEX's network in a more efficient and cost effective manner, thereby providing them with access to all of the NYNEX customers they elect to serve. In its September 14, 1993 Prospectus offering 4 million shares of stock, MFS stated, **"As a result of [FCC] rulings..., [MFS] believes it will be able to offer interstate special and switched access transport services to virtually every business and government end user in the metropolitan areas which [MFS] elects to serve."**

With these state initiatives, and the FCC's initiatives at the federal level, the competition's ability to succeed in the New York market has been greatly improved. In its Prospectus, MFS stated, "The

provision of facilities based, basic local service to business and government customers by CAPs will, in general, require certain significant regulatory changes. **In the largest single market, New York City, however, CAPs have been authorized to provide essentially all of the local exchange telecommunications services."**

Two fiber based CAPs enjoying national and regional success are MFS and TCG. Initially, they targeted the IXC market and large business market segments by offering alternative access services from the IXC's location to large business customer premises. They subsequently expanded their service offerings by providing local exchange services and targeting small and medium size businesses.

The CAPs have captured a significant amount of the New York market:

- They provide service to almost 40% of NYNEX's top 100 business customers, which account for over \$750 million of NYNEX's annual revenue.
- They provide service to essentially all of the IXCs, and it is estimated they have over 40% of the special access market in those markets in which they choose to compete.
- Their networks are capable of handling all of the transport services required by the IXCs in New York City.

The CAPs have also been rapidly expanding their networks and forming alliances to extend their reach.

- TCG provides service in Long Island and White Plains.
- NNI, an MFS affiliate, has built a CAP network in White Plains.
- Lightpath, a subsidiary of Cablevision Systems, is providing alternate access service on Long Island, plans to provide service in the Bronx and Westchester and purchased an AT&T 5ESS switch.
- Time Warner, in alliance with US West, is deploying an extensive fiber network in New York City and is operating a new interactive cable service in Queens. This network has fiber placed to within a few hundred feet of many of NYNEX's central offices in Queens, possibly in preparation to collocate within those offices.
- Collocation has been requested in 17 central offices. To date, collocation has been established in 12 offices.

With all the CAP networks under development or in operation, the major customers in LATA 132 now have competitive alternatives to NYNEX's service

In fact, the CAPs can now compete for, and provide, essentially all of NYNEX's current services in LATA 132.

Customers in LATA 132 now have competitive alternatives to NYNEX's services...

LATA 132 produces over 50% of NYNEX's Interstate Access Revenue.



MANHATTAN

Southern Manhattan, extending from Central Park to Battery Park, is approximately ten square miles. Nevertheless, over 40 IXC offices, or POPs, are located here, including some of the largest AT&T and MCI offices in the NYNEX area.

The 11 central offices in southern Manhattan produce about 25% of NYNEX's New York interstate access revenue and almost 10% of all of NYNEX's interstate access revenue. In fact, one of these offices handles almost as many interstate access minutes of use as the state of Vermont. Collocation is implemented in all but one of these offices.

Because this is the most highly concentrated area, competitors have focused their efforts here.

MFS's network in Manhattan thoroughly covers the midtown and downtown areas. The network passes in front of almost every IXC office and NYNEX central office. With this network, MFS is able to provide all the access services required by the IXCs.

MFS has a state of the art network. MFS provides high capacity special access and private line services. It offers international Datanet ATM service through its Newbridge Communication switch located at 33 Whitehall Street in Manhattan. MFS

is connecting this service to 14 other cities in the U.S. through WitTel's fiber network.

The company offers, through its Intelenet subsidiary, local and long distance switched services to small and medium sized business customers with as few as five lines. MFS provides least cost routing over nine IXC networks through its Ericsson AXE switch located in New Jersey. This switch serves two remote switches in New York City. Its prices are discounted as much as 41% below NYNEX. MFS states they are **"the only full service phone company providing both local and long distance"** service. MFS has expanded its New York network into Brooklyn, Queens, the Bronx and to New Jersey. An MFS affiliate, NNI, has built a network in White Plains.

TCG's state of the art network also has comprehensive coverage of both midtown and downtown Manhattan and areas of Brooklyn and Queens.

TCG offers high capacity data services, special access and private line services over its SONET fiber network. And, in a joint venture with Bell Atlantic, they intend to further expand their SONET based services. TCG has offered switched services for four years through its two AT&T 5ESS switches located in the World Financial Center in New York City.

Recently, TCG won a contract to provide over 3,000 coin lines and other services to the NY/NJ Port Authority, including the airports, World Trade and Financial Centers, and bus terminals. They also obtained a contract to provide Sprint with switched access transport facilities in New York City.

TCG's network has been extended to reach each of the airports in New York City, out to Long Island and to White Plains. TCG has also obtained the use of Cablevision Systems' facilities to further extend its reach. It is also expected that TCG will have an Initial Public Offering (IPO) in early 1994.

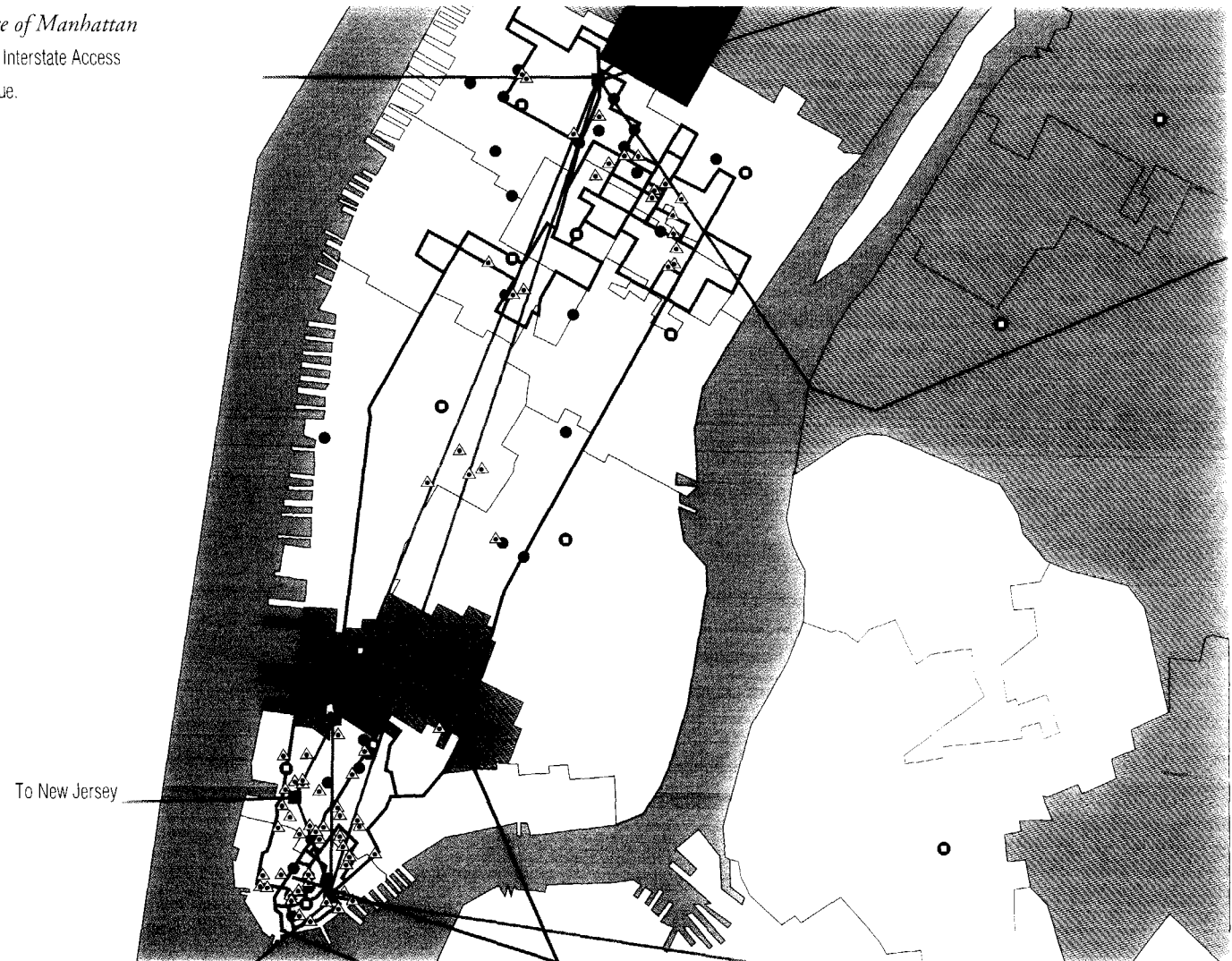
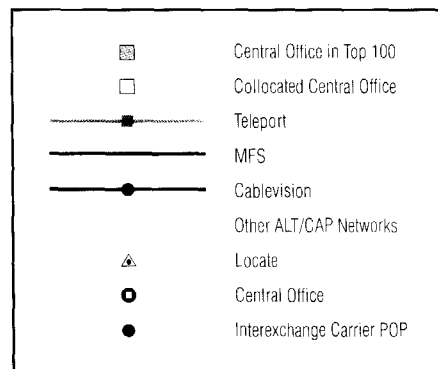
Competitive service providers in New York are not limited to fiber providers. One of the most successful non-fiber based CAP is Locate.

Locate is the largest supplier of wireless local loop technology and digital microwave in the nation. It provides high capacity dedicated transport services and has entered the switched services market. In June of 1993, Locate put in service a Siemens EWSD digital switch to serve 95 buildings in Manhattan.

Because of the high concentration of revenue, traffic and customers, the CAPs initially focused their efforts on the New York City area.

MAP 3

The CAPs' Networks provide comprehensive coverage of Manhattan
 Southern Manhattan generates about 25% of NYNEX's New York Interstate Access
 and Revenue and 10% of all of NYNEX's Interstate Access Revenue.



Eastern Massachusetts (LATA 128) has approximately 200 central offices and generates more than 20% of NYNEX's interstate access revenue. Twenty of the top 100 NYNEX central offices depicted on MAP 1 are in this area.

The Massachusetts Department of Public Utilities (DPU) is arguably the second strongest proponent of local competition in the nation after the New York PSC. In 1985, the DPU issued an order allowing intrastate competition in all markets beginning in December 1986. Subsequent to this order, the DPU issued Certificates of Public Convenience and Necessity to almost 100 carriers to provide service within the state. In 1991, Massachusetts became the second state, after New York, to authorize collocation when it approved a stipulation for physical collocation between NYNEX and a CAP. Soon thereafter, the DPU approved NYNEX's tariff for intrastate collocation in eight central offices. In late 1993, NYNEX and MFS filed a stipulation with the DPU that expands the physical collocation sites and establishes a forum to discuss competitive issues such as interconnection, number portability and access to NYNEX data bases.

With these state initiatives, and the FCC's initiatives at the federal level, the competition's ability to succeed in the Massachusetts market has been significantly enhanced. In its Prospectus MFS

stated, "The provision of facilities based, basic local service to business and government customers by CAPs [Competitive Access Providers] will, in general, require certain significant regulatory changes. In the largest single market, New York City, however, CAPs have been authorized to provide essentially all of the local exchange telecommunications services. . . . **In Boston, . . . , [MFS] could seek to provide similar services at this time, either through resale of LEC services or in combination with [MFS's] networks."**

The CAPs have been rapidly expanding their networks in Massachusetts and forming alliances to extend their reach outside of Boston.

TCG's network in Boston covers over 300 route miles and connects 150 buildings. TCG provides service to the suburban areas around Boston by using the fiber systems of its Cable TV owners. It has even bid against NYNEX for a \$1 million contract to provide service to a customer in New Hampshire and plans to extend its network into Maine. TCG has also demonstrated its switching capability by routing calls from Faneuil Hall in Boston to the Mayors of Newton and Malden in Massachusetts. These calls were routed through TCG's AT&T 5ESS switch located on Congress Street in Boston.

MFS's network covers almost 90 miles and connects 350 buildings. The network serves the Boston suburbs and MFS intends to expand its network west toward Worcester and has recently filed to offer services in New Hampshire. MFS intends to add approximately 100 buildings to its Boston network in 1994. It is estimated that MFS has almost 3,000 DS1 equivalents installed on its network.

MAP 4

Customers in LATA 128 have competitive alternatives to NYNEX's services...

LATA 128 produces more than 20% of NYNEX's Interstate Access Revenue.



BOSTON METROPOLITAN AREA

Competition is intense in the Boston metropolitan area.

The central offices within the Route 128 perimeter generate over 10% of NYNEX's interstate access revenue. The Boston and Cambridge central offices alone produce more than 20% of NYNEX's New England interstate access revenue and over 5% of all of NYNEX's interstate access revenue. NYNEX has received 24 requests for collocation in 17 central offices in the Boston metropolitan area. To date, collocation has been established in 15 offices.

MFS and TCG have sophisticated networks serving the Boston metropolitan area. Both companies offer high capacity data transport services and offer, or plan to offer in the first quarter, switched services. Their networks pass in front of almost every IXC POP and NYNEX central office and provide comprehensive coverage of the rest of Boston. With these networks, MFS and TCG are able to provide all the access services required by the IXCs and large business customers.

MFS's network control center and primary network node is located at 101 Federal Street in Boston. Other nodes are planned for Waltham, Medford and Burlington. MFS's network is being upgraded to use SONET architecture. Its service offerings include dedicated transport, international Datanet

ATM service to be linked to 14 other U.S. cities over Witel's interstate network, and it will offer local and long distance switched service through an Ericsson AXE switch early in 1994.

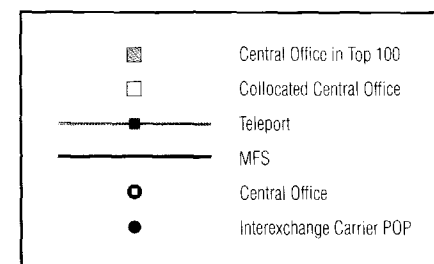
TCG offers dedicated transport service, PBX trunks, Centrex Service and LAN interconnect services. This year TCG plans to migrate to SONET equipment in its Boston network. TCG's switched services are offered through its AT&T 5ESS switch in Boston. TCG recently won a large contract for a complex Centrex service with 10,000 lines for Fidelity Investments Corp.

In addition, Locate provides service to about 40 buildings in Boston via its digital microwave and wireless facilities.

MAP 5

The CAPs' networks provide comprehensive coverage of the Boston Metropolitan area...

The Boston and Cambridge Central Offices produce more than 20% of NYNEX's New England Interstate Access Revenue and over 5% of all of NYNEX's Interstate Access Revenue.



ADDITIONAL CAP NETWORKS

Competitors are not only targeting the Boston and New York metropolitan areas, they also operate or plan to build fiber networks in many other urban and suburban areas.

MFS purchased FiberNet, Inc. which operated the competitive access fiber networks in Albany, Buffalo and Rochester, New York and planned to build a network in Providence, Rhode Island. The networks in Buffalo, Albany and planned for Providence are in NYNEX's service areas. It can be expected that MFS will upgrade these networks to provide the same services as its networks in Boston and New York.

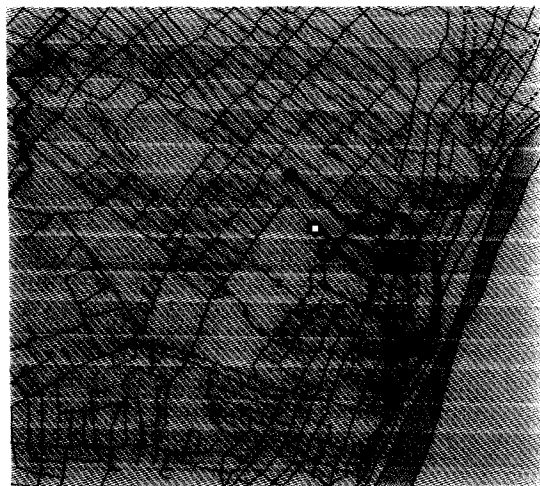
In downtown Syracuse and its suburbs, NewChannels Hyperion Telecommunications has operated a fiber network since 1992. This network employs state of the art SONET technology and provides high capacity special access and dedicated transport services.

In Springfield, Massachusetts, Fivecom has been operating a SONET based fiber optic network since 1992. It links five IXC POPs and can provide data, voice, video, POP to POP transport, and special and dedicated access services. Fivecom, which was recently purchased by Brooks Fiber Communication, plans to expand to other Massachusetts cities and Providence, Rhode Island.

MAP 6

Competitors are not only targeting New York and Boston, they also operate in networks in the other urban areas...

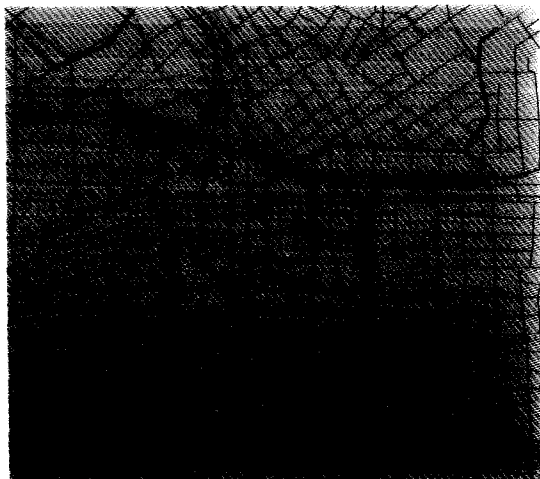
MFS operates the networks in Albany and Buffalo...



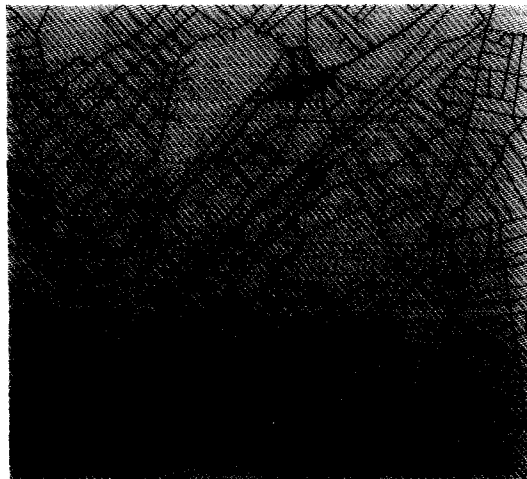
Albany



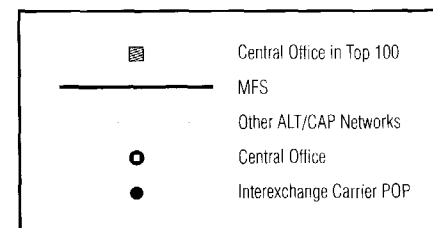
Buffalo



Syracuse



Springfield



POTENTIAL AND OTHER COMPETITORS

Hyperion Telecommunications, affiliated with NewChannels Hyperion of Syracuse, ACC Long Distance and Adelphia Communications, has built an extensive fiber optic SONET network ring around Vermont. The extent of Hyperion's network in Vermont reflects its plans to offer intrastate "point to point" private line service as well as interstate POP to POP transport, dedicated switched and special access transport. Hyperion entered into a "usage" agreement with Mountain Cable, another affiliate of Adelphia Communications Company, for the construction of the fiber network. Mountain Cable will also use the network for its cable TV services. In March of 1994, Hyperion's petition for a certificate of public good was granted authorizing Hyperion to provide these services.

As noted previously, MFS is planning to build a fiber network in Providence, Rhode Island. Three other CAPs, TCG, Brooks and Jones Lightwave, are also considering building networks in this city. Jones Lightwave, in which Bell Canada is purchasing a 30% interest, also operates cable TV networks in the NYNEX region. It is upgrading its system in the Buffalo area with a fiber optic backbone network that will be capable of providing video and telecommunications services.

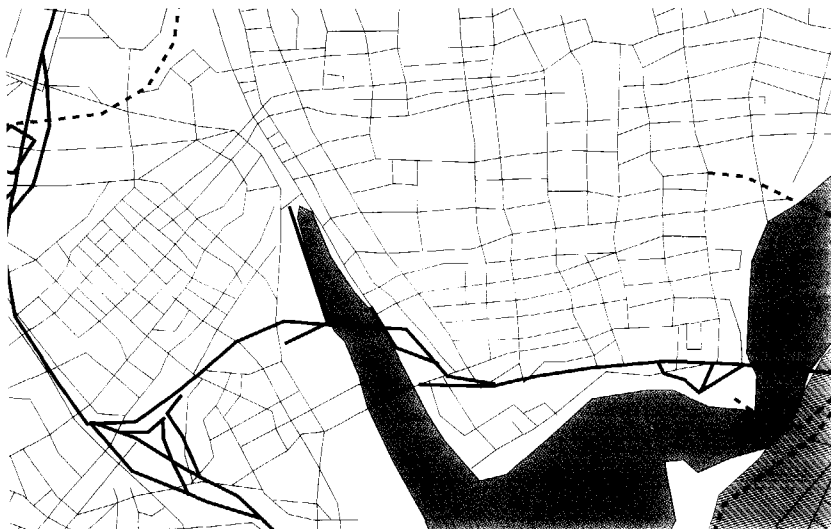
The CAPs and cable companies are not the only competition facing NYNEX. MCI recently

announced its intention to enter the local exchange market using facilities and conduits it obtained from Western Union. MCI obtained 150 miles of fiber optic cable in the boroughs of New York City and fiber facilities between the City and White Plains. AT&T's purchase of 33% of McCaw Cellular Inc. will give AT&T access to 70 million potential cellular customers that can bypass the LECs' networks. And ACC Long Distance Corporation has announced it will provide local exchange services to the colleges and other institutions and businesses to which it provides long distance service. ACC currently provides service to about 50 colleges and universities, and 20 hospitals in the northeast. The IXC's are also offering switched services to end users that bypass NYNEX's network, such as the originating and terminating switched bypass arrangements provided to colleges and large businesses.

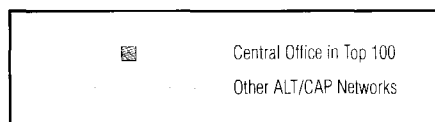
MAP 7

Competitors are also planning extensive networks in Rhode Island and Vermont...

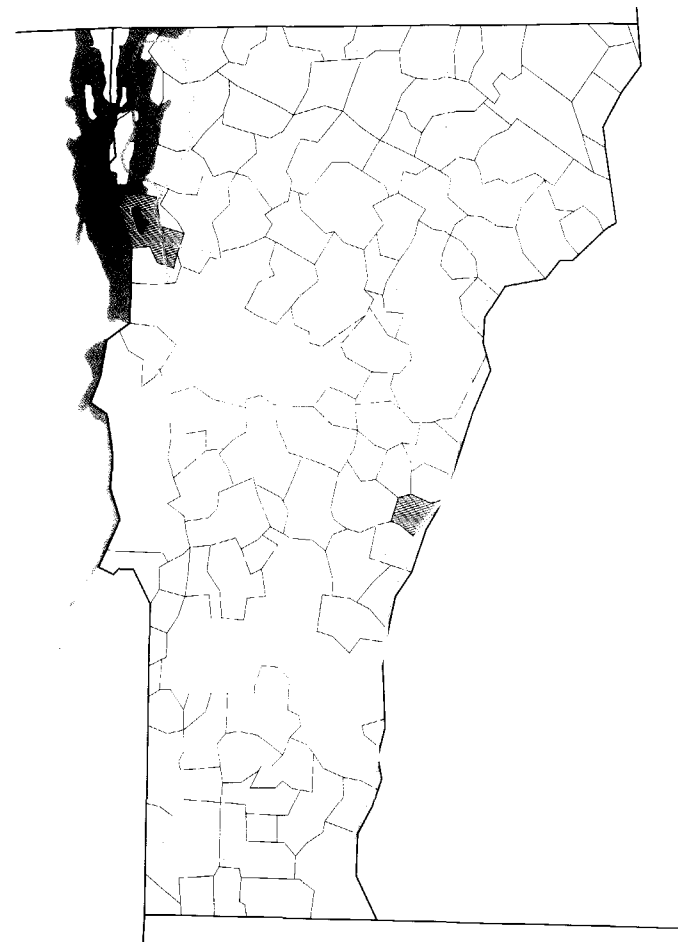
MFS, TCG, Brooks and Jones Lightwave are planning fiber networks in Rhode Island.



Providence, Rhode Island.



State of Vermont



Hyperion has filed for a certificate of public good in Vermont.

CLOSING STATEMENT

"The level of competition in the local exchange telephone business is affected by technology, economics, and regulatory design. Technology barriers are falling, reducing the cost of advance communications services... At the same time, regulators are encouraging local competition..."

"The competitive access providers can target their services to the most lucrative markets and can easily price their services below the local telephone company rates, since the competitive access provider does not have to contribute to cover the subsidies which keep residential rates low."

Ivan Seidenberg
President and Chief Operating Officer of
the Board and Telecommunications Group

Testimony before Congress on "National
Communications Competition and Information
Infrastructure Act of 1993", (H.R. 3636)
February 9, 1994

SUMMARY

In this competitive environment, NYNEX must be provided the ability to shift these subsidies out of their access rates.

- **The pro competitive public policy initiatives of the state and federal regulatory commissions have intensified competition in the NYNEX region much more rapidly than in other areas.**
- **NYNEX requires interim relief to align its access rates more closely with their costs in its most competitive markets.**
- **A cost based structure for access is essential to enable NYNEX to preserve Universal Service in the face of competition.**

NYNEX CONTACT

Mr. Frank Gumper

Managing Director – Federal Regulatory

120 Bloomingdale Road, Room 210

White Plains, New York 10605

914-644-5680

Prepared by:

NYNEX Access Services

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NYNEX[®]